

COMMERCIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q4 2016

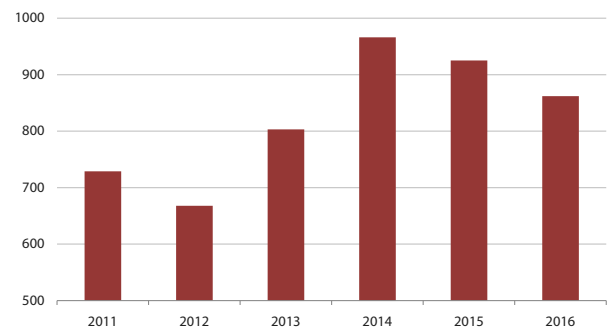
In 2016, the development of the commercial premises sector on the whole country's scale was somewhat enlivened by new market players – the German retail chain Lidl and the Latvian retail chain Depo specialising in construction materials and household goods. However, in recent years, any active development of new commercial buildings has only been observed in the two largest Lithuanian cities, i.e. Vilnius and Kaunas. The development of commercial properties in the other cities and towns of the country remains fairly slow and does not show signs of any sustainable recovery. This to a certain extent is proved by the volumes of construction in Lithuania, which have been decreasing for the second consecutive year. According to data from the Lithuanian Department of Statistics, in 2016, works of construction of non-residential premises in Lithuania for EUR 862 million were performed, which is a nearly 7% decrease compared to 2015 (at current prices). The highest volumes of construction of non-residential buildings in Lithuania were recorded in 2008 (EUR 1,544 million).

Although, in 2016, the volumes of construction on the whole country's scale decreased, market activity indicators show different trends, and certain records pertaining to sale of non-residential properties were even recorded. According to data from the State Enterprise Centre of Registers, in 2016, 18,131 transactions for non-residential properties (buildings and premises) were concluded in Lithuania, which is a **12% increase** compared to 2015. This was the highest activity indicator throughout the period since Lithuania regained independence, which also exceeded the average indicator for the years 2005–2008 by nearly 16%. The total value of transactions has also increased. In 2016, the total value of the transactions for non-residential properties registered in Lithuania was **6% higher** compared to 2015 (EUR 695 million in 2016 and EUR 655 million in 2015).

As far as the acquisitions of large and modern properties (office, retail and industrial property with a value over EUR 1.5 million) in Lithuania are concerned, the investment indicators for 2016 were not record-level, but nevertheless remained some of the best in the recent years (higher volumes of investments were only recorded in 2007, 2008 and 2015). In 2016, 19 major investment deals were concluded in Lithuania, under which over **273,000 sqm** of total area of commercial properties (offices, retail, warehousing and production buildings) were acquired. The total value of the acquired properties amounted to **EUR 253 million**, which is a nearly 6% decrease compared to 2015.

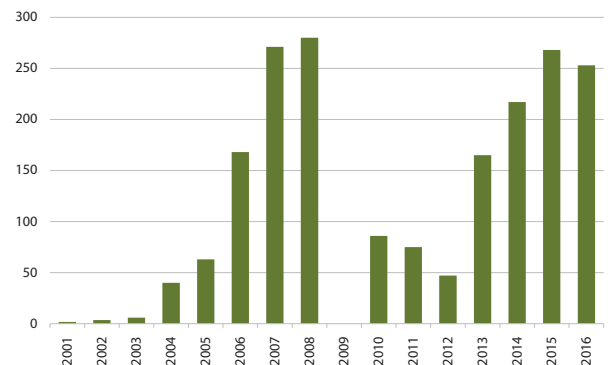
Analysis of investment deals concluded in 2016 shows certain important structural changes however. If the history of all investments (starting from 2000) is taken into account, investments in industrial properties (warehousing and production facilities) traditionally account for approximately 15% of the all the amounts invested in Lithuania. The remaining share accounts for retail properties (approximately 54%) and offices (approximately 31%). In 2016, industrial properties have surpassed the other property segments and attracted most investments, i.e. 36%. Offices received 35% of investments, while retail properties received 29% of investments.

THE VOLUME OF CONSTRUCTION OF NON-RESIDENTIAL BUILDINGS IN LITHUANIA
(at current prices, million EUR)



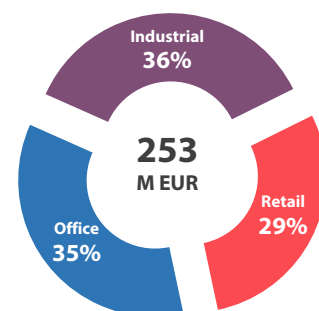
Source: Statistics of Lithuania / 2011 - 2016

INVESTMENT VOLUME
(modern commercial property in Lithuania, million EUR)



Source: Ober-Haus / 2001 - 2016

INVESTMENT VOLUME BY SECTOR
(modern commercial property in Lithuania)



Source: Ober-Haus / 2016

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This unusual result was mostly due to the sale of the logistics centre of Kesko Senukai, the announced value of which was EUR 60 million and which was the largest investment deal in Lithuania in 2016. In addition to the sale of the logistics centre of Kesko Senukai, in 2016, 5 more deals concerning industrial properties were concluded, which was also a fairly high figure for Lithuania (normally, 1–3 industrial properties are sold in the country per year).

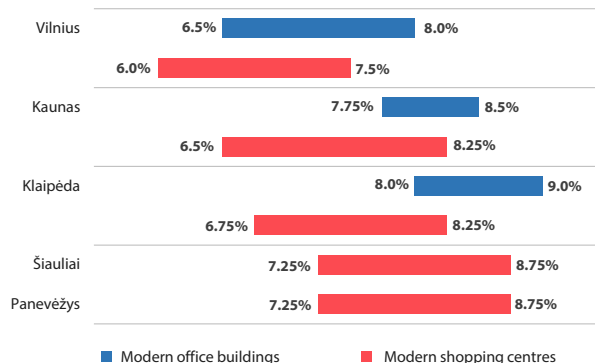
In the time period from 2012 to 2015, the Baltic and Nordic capitals have evidently dominated the Lithuanian market for investment deals: the share of capital from investors from these countries in the total investments over these four years accounts for nearly 82%. The dependence on local capital and capitals from the neighbouring countries started to decrease in 2015, and this share decreased to 52% in 2016. In 2016, the geographical distribution of investors was to a large extent affected by the acquisition of the logistics centre of Kesko Senukai by US investors and by the major investments from the Swiss-based investor Partners Group for the second consecutive year. At the beginning of the year, Laurus, which is jointly managed by Partners Group and Northern Horizon Capital, purchased a portfolio of commercial properties in the Baltic States, of which 19 properties (mostly current or former divisions of SEB bank) are situated in Lithuania, from the Dutch company Geneva Properties. This was the second largest investment deal in 2016. In addition to the major investments that involved US and Swiss capital, in 2016, Lithuanian commercial properties also attracted investors from Lithuania, Estonia, Norway, Russia, the Netherlands and Germany.

The investor trust in the Lithuanian market for commercial properties has further decreased the yields on investment in the most attractive property segments. Highest class business centres in Vilnius and the most popular and largest shopping centres in the main Lithuanian cities remain among the most attractive properties. In 2016, the yield on investments in these properties in Vilnius on average dropped by 25–50 basis points, while it dropped by up to 25 basis points in other regions of the country. By the end of 2016, the yield, depending on the region, amounted to approximately **6.0–8.5%** for offices and shopping centres and approximately **8.0–9.0%** for modern warehousing properties.

The decreasing yields also gradually raise the value of commercial properties. Although rents for A class offices in 2016 remained stable, the yield on investments for such premises in the same period on average decreased by 50 basis points, i.e. from 7.25% to 6.75%. These changes have influenced the further growth of the capital value index, which **increased by over 7%** for A class offices in Vilnius in 2016. The value of A class offices in Vilnius is currently only 10–15% lower than the all-time-high level in 2007 and 2008.

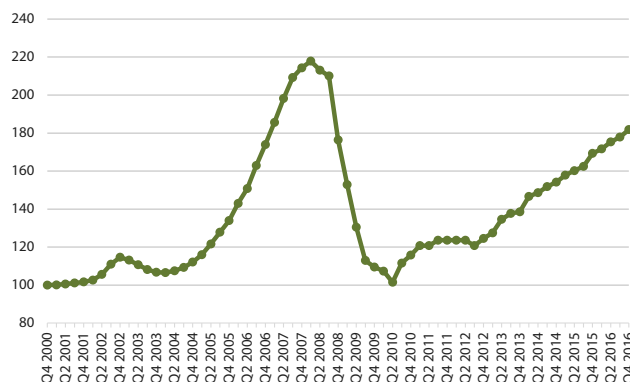
The year 2016 was one of the most active years in the Vilnius office market in recent years. In 2016, 6 new projects were implemented in the Lithuanian capital city, which offered the market **80,800 sqm** of useful office space (Quadrum, City, 135, Delta, Highway, and the upgraded offices in Vilnius Gates in Gynėjų St., which prior to that were used for retail purposes (Fashion Gates boutiques)). The previous leap in the supply of offices was only recorded in 2008, when 12 projects or project stages were completed and offered the market 89,500 sqm of office space. In 2016, the total supply of modern offices in Vilnius increased by nearly 15% and, by the end of the year, the total useful area of modern offices in Vilnius amounted to **627,400 sqm**.

COMMERCIAL PROPERTY YIELDS



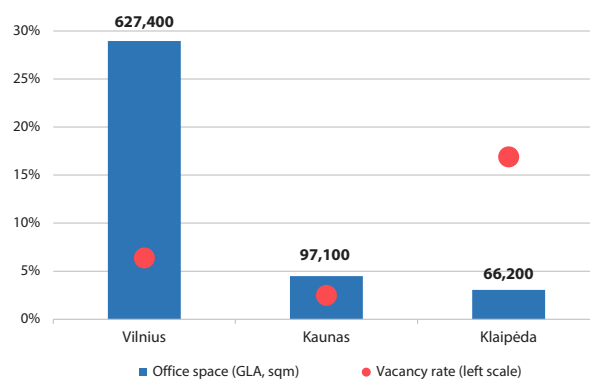
Source: Ober-Haus / Q4 2016

CAPITAL VALUE INDEX (A class offices in Vilnius / Q4 2000 = 100)



Source: Ober-Haus / 2000 - 2016

MODERN OFFICE STOCK AND VACANCY RATE



Source: Ober-Haus / Q4 2016

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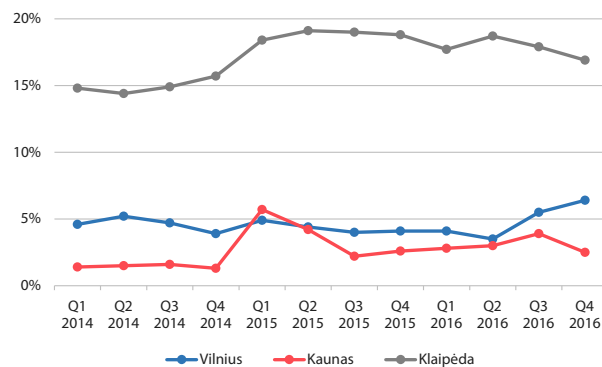
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The rich supply of new offices has offered considerable selection opportunities and improved the office take-up figures. In 2016, a total of **75,900 sqm** of office space was leased in Vilnius, which is a 44% increase compared to 2015. The overall office vacancy rate in Vilnius business centres continued to increase for the second consecutive year, i.e. in the course of the year increased from 4.1% to **6.4%**. By the end of the year, the amount of vacant office space was 40,100 sqm. The vacancy rate for class A offices was 3.4%, while the vacancy rate for class B offices was 8.1%. Although the demand for modern offices remains fairly high and developers could be satisfied with the lease pace (of the 2016 supply, 73% was leased by the end of the year), the growth in the vacancy rate was easily predictable. Some of the companies leave their previous offices and opt for new ones. But the 2016 projects were dominating by companies undergoing expansion, which either established their new units or transferred their individual units into a single building. Therefore, the expanding and newly establishing companies compensate for the office space of other companies (which move from one location to a different location) in other projects, and a fairly consistent growth in office vacancy rate in Vilnius could be observed in 2016. The year 2017 is also promising in terms of both supply and demand. Developers plan to implement as many as 15 various-scale projects or stages in the course of the year and offer the Vilnius market nearly 83,000 sqm of new modern office space. Therefore, even in case the demand for the offices remains the same as in 2016, the growth of office vacancy rate in 2017 is practically inevitable.

The wide selection of modern office premises has also slowed down the growth of rents. In 2016, rents for A class offices remained stable, while rents for B class offices increased by 2%. By the end of 2016, rents for A class offices were **13.5–16.5 EUR/sqm**, while rents for B class offices were **8.5–13.0 EUR/sqm**. The offer of new offices in 2017 is likely to be favourable to tenants, and any positive changes in rents are unlikely.

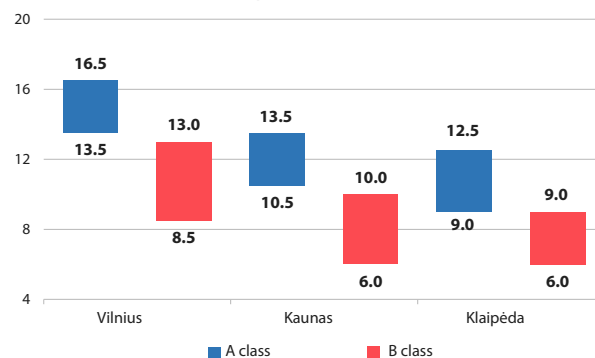
The development of new offices has finally started in Kaunas. The lengthy discussions about the insufficiency of offices in Lithuania's second largest city have proven fruitful. In 2016, 5 small-scale office projects (in Neries Krantinės St., Taikos Ave., Pramonės Ave. and Partizanų St.) added up to the Kaunas market for modern offices. As a result, the **Kaunas** market for modern offices grew by 8% (7,550 sqm of useful office space) in a year, and the total supply by the end of 2016 was **97,100 sqm**. Although the growth in supply in 2016 was only minor, the construction of some large business centres started in Kaunas in 2016 will, if completed, provide some good opportunities for the growth of the sector and attracting businesses in 2017 and 2018. In theory, the construction of 8 office projects might be completed in 2017, with the useful office space there amounting to 40,000 sqm. These projects include both the reconstruction of old administrative buildings of various size and the construction of new fairly large business centres, which will offer tenants over 5,000 sqm of office space per building. However, considering that the construction of modern buildings often takes longer than expected and that the pace of construction works also depends on demand (the real interest on the part of tenants), the completion of some of these projects might be postponed to 2018.

MODERN OFFICE VACANCY RATE



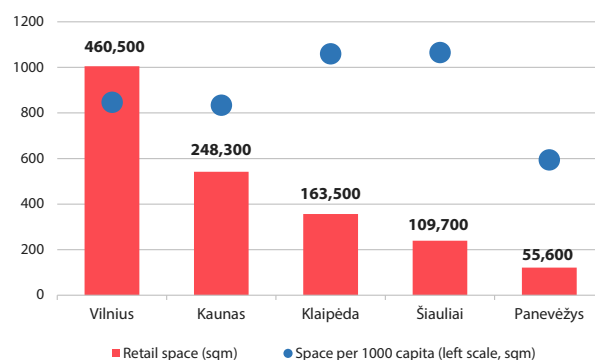
Source: Ober-Haus / 2014 - 2016

MODERN OFFICE RENTS (EUR/sqm/month, without VAT)



Source: Ober-Haus / Q4 2016

SHOPPING CENTRE STOCK (over 5,000 GLA and over 10 tenants)



Source: Ober-Haus / Q4 2016

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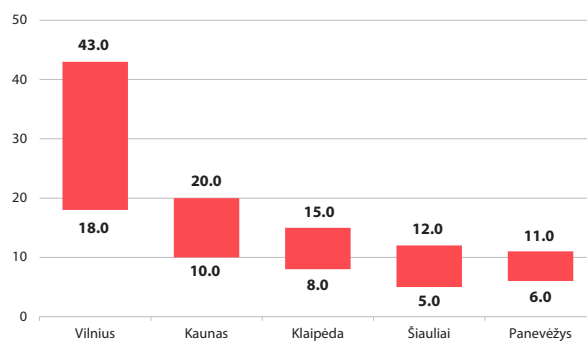
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In any case, the new supply is likely to attract both local and international companies, which were unable to establish or expand in Kaunas earlier due to shortage of office space on offer. Regardless the fact that 5 small-scale new projects were implemented in **Kaunas** in 2016, the vacancy rate in the course of the year has remained stable and was **2.5%** by the end of the year (the vacancy rate at the end of 2015 was 2.6%). By the end of 2016, the total area of vacant offices was nearly **2,500 sqm**. It is evident that the currently available area of vacant premises is insufficient for companies which are looking for large office areas in a single building. Therefore, any major movement on the part of tenants is likely at the end of 2017 and in early 2018, when the first major projects will be completed and the actual demand for such properties in Kaunas will become clear. Although, in the course of 2016, rents for offices in Kaunas on average increased by nearly 6%, the current rent level is considerably lower compared to rents in Vilnius (in Kaunas, rents for modern offices are on average approximately 20% lower than in Vilnius). By the end of the year, rents for A class offices in Kaunas amounted to **10.5–13.5 EUR/sqm**, while rents for B class offices amounted to **6.0–10.0 EUR/sqm**.

Similarly to previous years, in 2016, the development of modern offices was the slowest in Klaipėda. In the course of the year, two small office buildings (M19 in Minijos St. and a small building in Taikos Ave.) with the total useful office space amounting to 3,100 sqm were built here. This means that, in 2016, the market for modern offices in **Klaipėda** grew only by 5%, and the total supply by the end of the year was **66,200 sqm**. Although the implementation of any large-scale projects in Klaipėda in the nearest future seems unlikely, local investors are trying to revive the stagnating market for commercial premises in this city. In mid-2016, Viremidos Investicijos announced the envisaged transformation of an abandoned industrial site in Liepų Street. During the first stage, plans are to reconstruct the boiler-house and build a retail, warehousing and office building Kamino Biurai nearby; the new building will provide premises of various types (approximately 2,000 sqm will be allocated for offices).

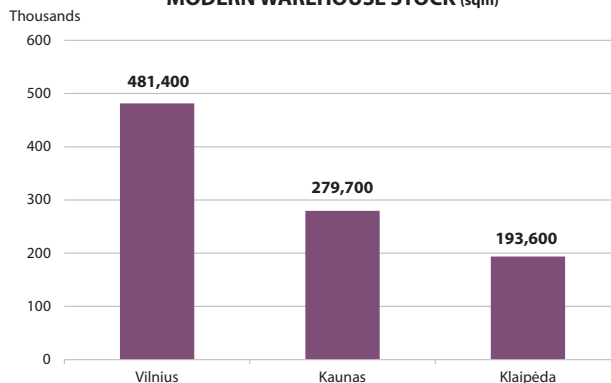
No major changes in the office occupancy rate have been recorded in **Klaipėda** in 2016, although, in the course of the year, the overall office vacancy rate in the city decreased from 18.8% to **16.9%**. Unlike Vilnius or Kaunas, the modern offices market in Klaipėda receives most interest from local companies. The lack of international companies and the fairly slow expansion of companies operating in the city do not provide any grounds for believing in any speedier development of this segment in the foreseeable future. However, with the growth of the national economy and the improvement of company performance, successful companies are able to pay higher rents for modern offices. In the course of 2016, rents for modern offices in Klaipėda on average grew by nearly 3%, but nevertheless remain nearly 20–30% lower compared to Kaunas and Vilnius. By the end of 2016, rents for A class offices in Klaipėda amounted to **9.0–12.5 EUR/sqm**, while rents for B class offices amounted to **6.0–9.0 EUR/sqm**.

MAIN RETAIL STREETS RENTS
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



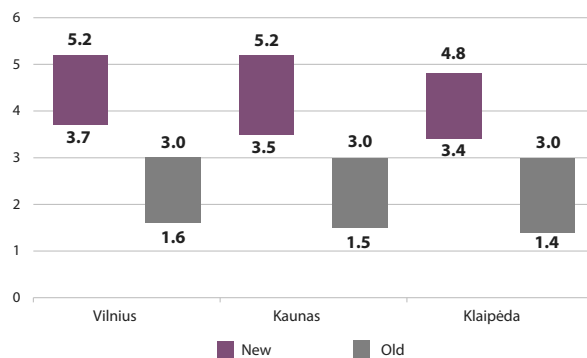
Source: Ober-Haus / Q4 2016

MODERN WAREHOUSE STOCK (sqm)



Source: Ober-Haus / Q4 2016

WAREHOUSE RENTS
(EUR/sqm/month, without VAT)



Source: Ober-Haus / Q4 2016

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In 2016, new retail chains entered the Lithuanian market and operating shopping centres were expanding. In June 2016, the first shops of the German retail chain Lidl were opened in different locations in Lithuania. In the course of 2016, this retail chain opened 22 small shopping centres in Lithuania. Lidl continues to plan its further expansion in the country. Depo, the Latvian retail chain specialising in construction materials and household goods, has also started operations in Lithuania. The first shopping centre of the chain was opened in Klaipėda at the end of 2016. The retail chain plans to open another four new shopping centres in Vilnius, Kaunas and Panevėžys in 2017 and 2018. The total area of the five shopping centres will amount to approximately 100,000 sqm.

Among traditional and large shopping centres, in 2016, the renovation and expansion of operating shopping centres was mostly taking place. In 2016 three shopping centres in Vilnius have expanded and renovated their sites. In early 2016, the DomusPro shopping centre in Pašilaičiai district was expanded and supplemented with two new major tenants – Hansa Plytelių Turgus and Fitus gym. In May 2016, the second stage of the Nordika shopping centre was opened, which offered buyers 17 new shops (with Senukai becoming the anchor tenant) and completed the expansion of this shopping centre in the southern part of the city. At the end of the year, OUTLET PARK was renovated and expanded. This was the third stage of renovation and expansion of this outlet shopping centre located in Šiaurės Miestelis (Žirmūnai district), as a result of which not only retail premises on the ground floor were expanded and renovated but also additional commercial space was provided on the second floor of the building. A total of 25,100 sqm of new retail area was provided to the Vilnius market in 2016. By the end of 2016, there were 26 traditional shopping centres operating in **Vilnius** (with a useful area of at least 5,000 sqm and with at least 10 tenants per shopping centre), with the total leasable area there amounting to **460,500 sqm** (847 sqm per 1,000 Vilnius residents).

Kaunas has also experienced a leap in the retail space in shopping centres. In late 2016, the renovated and expanded Mega shopping centre was opened. This shopping centre has offered buyers an additional 25,000 sqm of retail space and over 70 new shops, cafes and service points. On completion of the expansion, Mega has become the second largest shopping centre in Lithuania (in terms of leasable retail area) and the largest shopping centre in central Lithuania. By the end of 2016, there were 11 traditional shopping centres operating in **Kaunas** (with a useful area of at least 5,000 sqm and with at least 10 tenants per shopping centre), with the total leasable area there amounting to **248,300 sqm** (834 sqm per 1,000 Kaunas residents).

No new projects have been implemented in the other main Lithuanian cities and the supply there has not changed during the year: the total leasable retail area in **Klaipėda** amounted to **163,500 sqm** (1,059 sqm per 1,000 Klaipėda residents), **109,700 sqm** in **Šiauliai** (1,065 sqm per 1,000 Šiauliai residents) and **55,600 sqm** in Panevėžys (594 sqm per 1,000 Panevėžys residents). By the end of 2016, there were nearly **386 sqm** of retail area in traditional and large shopping centres per 1,000 **Lithuanian residents**.

The rapid growth of retail trade volumes in 2016 has reinforced the positive expectations in the retail premises sector. The successfully operating shopping centres and their growing turnovers could further consistently raise rents. Most lease contracts are linked to tenant turnovers or national or EU inflation rates, which means that existing tenants of shopping centres had to accept rents which are at least 1–2% higher than rents a year ago. On the other hand, rents for new tenants were up to 3–7% higher than a year ago. New companies or companies undergoing expansion were actively looking for premises for their businesses in 2016, too. Fully leased out shopping centres and high rents for retail premises encourage entrepreneurs to look for alternatives in different parts of the city. The most attractive shopping streets in the main Lithuanian cities continue to receive tenant attention but cannot offer a wide selection of retail premises. Therefore, a growth of rents in the shopping streets of the main Lithuanian cities was also recorded in 2016. The greatest growth was recorded in the main shopping streets in **Vilnius** (Gedimino Ave., Pilies St., Didžioji St. and Vokiečių St.), where, in the course of the year, rents increased by a further 7%. In the main shopping streets in **Kaunas, Klaipėda, Šiauliai and Panevėžys**, in the course of the year, rents increased on average by **4–6%**. By the end of 2016, rents for average-size (approximately 100–300 sqm) retail premises in the main shopping streets in **Vilnius** amounted to **18.0–43.0 EUR/sqm**; this figure was **10.0–20.0 EUR/sqm** in **Kaunas**, **8.0–15.0 EUR/sqm** in **Klaipėda**, and **5.0–12.0 EUR/sqm** in **Šiauliai and Panevėžys**.

In 2016, the growth of revenues of companies providing warehousing and storage services was recorded once again. According to data from the Lithuanian Department of Statistics, in the course of 2016, the revenue of companies engaged in the sale of warehousing and storage services increased by 7.5% (compared to 2015). The development of warehouses in the main regions of the country continues to closely follow market needs. Just like in previous years, most of warehousing and logistics projects are undertaken by companies for their own needs.

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In 2016, 7 new warehousing and logistics projects were completed in **Vilnius, Kaunas and Klaipėda regions**, with the total area of the warehouses amounting to **35,800 sqm**. The greatest number of small-scale projects was implemented in Vilnius region (Layher Baltic, Litcargus, Woodline, Wirtgen Lietuva, Vilniaus Sigmos Sandėlių Centras) and, by the end of the year, the total area of warehousing premises here amounted to **481,400 sqm**. In mid-2016, the brewery Volfas Engelman opened a warehouse for its produce in Kaunas, and, by the end of 2016, the total area of warehousing premises in this city was **279,700 sqm**. The largest warehousing project of 2016 was implemented in Klaipėda region: the nearly 17,500 sqm warehouse with administrative premises was implemented by VPA Logistics; as a result, the total area of warehousing premises in Klaipėda region increased to **193,600 sqm**. Of these all projects, 4 projects were built and intended exclusively for the needs of the companies that implemented them.

In 2017, plans are to implement at least 6 new projects in Vilnius and Klaipėda regions, with the total warehousing area of 56,000 sqm.

Similarly to what has been forecast, in 2016, a minor increase in rents for warehouses was recorded, which to some extent determines the fairly slow rate of development of this sector in Lithuania (in particular as far as warehouses for market needs (compared to own needs) are concerned). In 2016, rents for warehouses in **Vilnius, Kaunas and Klaipėda regions** on average increased by **1–3%**. By the end of the year, new warehouses in **Vilnius** were offered for **3.7–5.2 EUR/sqm**, while old warehouses were offered for **1.6–3.0 EUR/sqm**. In **Kaunas**, the figure was **3.5–5.2 EUR/sqm** for new warehouses and **1.5–3.0 EUR/sqm** for old warehouse; in **Klaipėda**, new warehouses were offered for **3.4–4.8 EUR/sqm** and old warehouses were offered for **1.4–3.0 EUR/sqm**.



GREEN HALL VALLEY

When using the survey data, a reference to **Ober-Haus Real Estate Advisors** is required.

If you wish to receive any additional information about development of the real estate market in Lithuania, Latvia, Estonia or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact Ober-Haus real estate market analysts.

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